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SUBJECT: GERMAN BUSINESS COMMUNITY DISAPPOINTMENT WITH FEDERAL GOVERNMENT

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¶1. (SBU) Summary: German business leaders are expressing disappointment with the lack of economic reforms under the Merkel government. Some executives go so far as to say that the previous SPD-led government was more active in pushing reforms and paid greater attention to business' concerns. They argue that if Germany continues to avoid difficult but necessary economic decisions, it will no longer be competitive against dynamic, emerging market economies, in particular China and India. The business community appears to be far ahead of the government in considering how Germany can compete in a global economic environment. End Summary.

Business Complaining The Government Too Slow On Reforms

¶2. (SBU) At a meeting in its Cologne headquarters in November, a senior Ford Motor Company executive provided Minister Counselor for Economic Affairs and Düsseldorf Pol/Econoff an overview of the firm's relationship with the German government. He observed that Ford Europe is "simply not getting what it needs and wants." Numerous AmCham North Rhine-Westphalia (NRW) leaders have echoed these comments to CG over the last several months, expressing strong disappointment with the support they get from Berlin, even while saying they understand how difficult it is for the CDU to force through a pro-business agenda in the Grand Coalition.

¶3. (SBU) Mission Germany has heard similar complaints over the lack of economic reforms from other parts of Germany. The Ford executive's opinions are widespread in the business community, where support for the CDU has traditionally been strong. "Chancellor Schroeder did more for industry than Chancellor Merkel has," he declared, by reducing such costs for employers as unemployment and health insurance. Germany is also doing too little to tackle unemployment: "the recent decrease in unemployment to below 10% (9.8%) is not/not a victory," he stated. Others in the NRW business community also argue that the former SPD-led Berlin government worked more closely with them than has Chancellor Merkel, in terms of communication, consultation, and addressing individual concerns.

Fears of Losing Competitiveness

¶4. (SBU) Germany needs to change to be competitive against emerging economies such as India and China, the Ford executive stated. Germany will be more expensive, but even with higher costs it can compete if it is a world leader in innovation,

whether in terms of products, technologies, or production techniques. At the moment, he stated, "it has no sense of urgency to adjust and make itself more competitive." The society needs to be more innovative and is still too slow at positioning itself for the future, especially in education. Top-quality engineers once kept Ford in Germany; that is no longer the case. Weaknesses in the education system have become a real obstacle; Ford is unable to fill apprentice positions because it cannot find enough individuals with basic skills such as reading and writing. He, like other German observers, noted the move of pharmaceutical research and development out of Germany -- largely to the U.S.

Allianz in Munich - A Similar View

15. (SBU) In a meeting with CG Munich, Michael Diekmann, Chairman of the Board of Management (CEO) of Allianz SE, expressed little faith that the Merkel-led Grand Coalition would succeed in making any tough decisions in areas such as tax reform. He said the CDU/CSU members of the coalition were afraid of losing power in state elections in the coming years. Diekmann's reasoning was that in eight years, the number of Germans receiving public assistance such as social security and unemployment will exceed those who are employed -- these recipients of assistance vote, and they will not vote to cut their benefits. The only way any party will be able to retain power in Germany will be to water down reforms and keep up entitlements. Diekmann, like other German business leaders, does not consider the CSU particularly business-friendly, saying M-P Stoiber is essentially a socialist, who is "pro-business" only to the extent that he does not want firms to leave Bavaria.

A Mixed Perspective from Leipzig

16. (SBU) The overall assessment of the performance of the CDU-SPD government among business contacts in Saxony,

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Saxony-Anhalt and Thuringia is mixed. Some complain about the slow path in handling reform projects, others stress positive developments, such as lower social fringe benefits and new regulations in the corporate tax system -- important factors especially for small-and medium sized businesses. While many contacts in these new Laender say the federal government has not met their expectations, they often acknowledge that their expectations had been much too high.

17. (SBU) Wolfgang Heinze, Vice President of European operations at U.S. firm Southwall Worldwide and chairman of the Federation of Employers in Saxony, talked about a recent meeting of the Federation of Employers and Federation of German Industry leaders in Berlin with Chancellor Merkel and other senior Federal officials. He observed that while German business people were very optimistic when Merkel's Grand Coalition was formed last fall, optimism has since given way to frustration. Within the Federations the majority of members complain about the lack of a consistent reform strategy. They are encouraging Chancellor Merkel to push through urgent reforms, especially to reduce social welfare costs for employers.

18. (U) Only about 20% of managers are generally satisfied with the Grand Coalition after one year, according to the results of a recent Allensbach survey published November 20. Some business leaders, however, who attended a Berlin consultation with the Chancellor in mid-November put a more positive spin on the Grand Coalition, while saying it needs to do more in terms of tackling the structural reforms Germany has needed since the 1980s. These defenders commonly say that while the Merkel government may have been slow in making needed reforms, there is a sense of a consistent overall strategy.

19. (SBU) Comment: The German business community traditionally has a reputation for conservatism and opposing change. Yet many

business leaders are ahead of the politicians in strategizing about Germany's position in the global economy. They look at rising competitors in China, India, and other emerging economies and want to be positioned to meet those challenges. Many feel that the Merkel government may have to tread too narrow a path between CDU and SPD interests and therefore lacks the ability to take bolder economic measures.

¶10. (U) This message was coordinated with Embassy Berlin, with input from Hamburg, Leipzig, Munich, and Frankfurt.
BOYSE